Program

Workshop I
Friday, September 25
Moderator: Koji Kubo (IDE-JETRO, Japan)
12:00-12:40 Speaker: Fukunari Kimura (ERIA)
Exit Strategies for ASEAN and East Asia: A Huge Demand Shock Will Come
12:45-13:25 Speaker: Priyadarshi Dash (RIS, India)
Tackling Economic Fallout of COVID-19 Pandemic: Policy Choices and Experiences from BRICS and G20

Workshop II
Tuesday, September 29
Moderator: Shiro Armstrong (ANU, Australia)
12:00-12:40 Speaker: Shiro Armstrong (ANU, Australia)
An Asian strategy for recovery and reconstruction after COVID-19
12:45-13:25 Speaker: Satoru Kumagai (IDE-JETRO, Japan)
Impact of the COVID-19 on Global Economy: An Analysis Using Mobility Data from Mobile Phones

Workshop III
Thursday, October 8
Moderator: Duc-Hieu Phan (CIEM, Vietnam)
12:00-12:40 Speaker: Duong Anh Nguyen (CIEM, Vietnam)
Making Trade More Resilient After COVID-19: A Vietnamese Perspective
12:45-13:25 Speaker: Latdavanh Songvilay (NIER, Lao PDR)
The Impact of COVID-19 on Lao economy and its recovery post-COVID
13:30-14:10 Speaker: Ni Lar Myint Htoo (YUE, Myanmar)
Impact of COVID 19 on Household Consumption Behavior

Workshop IV
Monday, October 12
Moderator: Shujiro Urata (ERIA/IDE-JETRO)
12:00-12:40 Speaker: Adoracion M. Navarro (PIDS, Philippines)
Impacts of coronavirus disease 2019 and implications for sustainable development in the Philippines
12:45-13:25 Speaker: Calvin Cheng (ISIS, Malaysia)
Pandemic Economics: the impact of the COVID-19 pandemic on the Malaysian economy
Workshop V  
Wednesday, October 21  
Moderator: Kirida Bhaopichitr (TDRI, Thailand)  
12:00-12:40 Speaker: Salitorn Thongmeensuk, Titaporn Rojsirikulchai (TDRI, Thailand)  
*The Impact of the COVID-19 pandemic on air transport industry with a particular focus on Thailand*  
12:45-13:25 Speaker: Punpreecha Bhuthong (TDRI, Thailand)  
*Rethinking Supply Chain Strategy amidst COVID-19 and Trade War: Thailand’s Perspective*  

The time is shown in South East Asia Standard Time (GMT+7).  

Disclaimer  
The views, thoughts, and opinions in the proceedings are those of the authors, and they do not represent the views of the Research Institutes Network (RIN)’s institutes or those of the Economic Research Institute for ASEAN and East Asia (ERIA).  

ISBN978-4-258-27007-1  
Research Institutes Network (RIN)  
Bangkok, Thailand
Foreword

The novel coronavirus (COVID-19) pandemic has taken a severe toll on human life and caused an unprecedented contraction of the world economy. This compels the Association of Southeast Asian Nations (ASEAN) and East Asia, one of the regions that have greatly benefited from globalization, to bolster economic activities while controlling the spread of COVID-19. The Research Institutes Network (RIN) launched a series of online workshops on COVID-19 with the goal of deepening our understanding on the multifaceted impacts of COVID-19 on regional economies, and on the policy measures taken thus far. The workshops were concluded successfully in September and October 2020 with the vibrant exchange of views/perspectives among participants from the RIN institutes and the Economic Research Institute for ASEAN and East Asia (ERIA). I am sincerely grateful to the contributions of all the participants. While the expeditious development and distribution of COVID-19 vaccines mark a positive signal in the global fight against the pandemic recently, it is a mission of our research community to examine pathways for quick economic recovery.

Dr. Hank Lim
Chairperson, The Research Institutes Network (RIN)
Workshop Proceedings
Exit Strategies for ASEAN and East Asia: A Huge Demand Shock Will Come

Fukunari Kimura
Professor, Faculty of Economics, Keio University
Chief Economist, Economic Research Institute for ASEAN and East Asia (ERIA)

Synopsis
● To maintain and further enhance our Factory Asia, ASEAN and East Asian countries must plan and implement effective exit strategies from COVID-19 pandemic with three policy phases: emergency responses, exit policies, and policies for the new normal.
● Macroeconomic policy must be designed in three phases: mitigation as emergency responses, stimulus as exit policies, and regaining fiscal health as policies for the new normal.
● As for global value chains (GVCs) or international production networks (IPNs) in ASEAN and East Asia, the production system has still been largely intact. However, we must prepare for possible prolonged negative demand shocks.
● To catch up with the worldwide digital transformation accelerated by COVID-19, developing Asia must promote the introduction of information technology (IT) and communications technology (CT) as a core part of its development strategies.
● ASEAN's initiative is crucial. Our Factory Asia must be even more strengthened through this difficult time.

The damage of COVID-19 on our health and the economy has been relatively light compared with other parts of the world. However, ASEAN and East Asia should plan and implement proper exit strategies for maintaining and even strengthening our "Factory Asia." Health policy, macroeconomic policy, policies for international production networks (IPNs), and policies for the digital economy must be well designed and coordinated in three different policy phases: emergency responses, exit policies, and policies for the new normal (Table 1; Kimura 2020).
Health policy must be prioritized at the stage of emergency responses (Kimura, Thangavelu, Narjoko, and Findlay 2020). Without containing pandemic within the capacity of healthcare services, the economy cannot revive. Still some countries in the region are struggling with calming down the pandemic while others are worrying about the second and third waves of the pandemic. In the transition from emergency responses to exit policies, restrictions on the movement of people, domestic and cross-border, can be removed only with great care. It is likely to take considerable time to resume the mobility of people as before.

Although the current macroeconomic downturn has been unprecedented, a serious financial crisis or a collapse of asset markets has not come yet. Figures for GDP and international trade seem to bottom out in May 2020 for most of the countries in the region. However, our region may still face prolonged negative demand shocks coming from all over the world from now on. Mitigation policy in emergency responses, macroeconomic stimulus as exit policies, and resuming fiscal health for the new normal will be focal points for macroeconomic policies (Zen and Kimura 2020).

COVID-19 has generated three kinds of shocks on global value chains: negative supply shocks such as an interruption of imports from China in February 2020, positive demand shocks for medical-related goods and goods for teleworking and staying home, and negative demand shocks due to the overall slowdown of the world economy. Fortunately, the production system in ASEAN and East Asia is almost intact so far. As proved at the occasions of past crises such as the Global Financial Crisis and the East Japan Earthquake, IPNs are robust and resilient against temporary shocks (Ando and Kimura 2012). However, prolonged demand slumps in the world may hurt our IPNs.

The China factor would generate further uncertainty. In the COVID-19 pandemic, the US-China confrontation has been aggravated, and a partial “decoupling” seems to proceed, particularly industries and commodities related to potentially military-used technologies and...
high tech in general. ASEAN and East Asian economies other than China would like to keep good economic relationships with both the US and China and thus avoid a situation of being forced to choose just one of them though it may not easy to maneuver complicated geopolitics. Private firms will try to enhance the resilience of their IPNs, which will generate chances for countries to attract more production blocks and upgrade their position in IPNs. It is crucial to maintain the rule-based trading regime and provide better investment climate.

The usage of digital technology is being accelerated by COVID-19 in both developed and developing countries. To catch up with the worldwide digital transformation, developing Asia must incorporate the introduction of information technology (IT) and communications technology (CT) in its development strategies for the following three fronts. The first is to make traditional industries such as agriculture, cottage industry, transportation, and tourism more productive by IT and CT. The second is to position better in manufacturing IPNs by introducing IT such as industrial robots and upgrading CT to further reduce service link costs (Obashi and Kimura 2020). The third is to develop new service industries led by CT, which include e-commerce, matching businesses, service outsourcing, e-payments, and fintech. Particularly for the third front, it is crucial to overcome possible digital divide, construct innovation hubs for applications, and establish a policy environment for the flow of data and data-related businesses with trust (Chen, et al. 2019).

ASEAN and East Asia can be a model case for the recovery and play a more proactive role in global governance. It is imperative to activate ASEAN's initiatives for exit strategies. A crucial test will come with huge worldwide demand shocks and prolonged social distancing.

References


Tackling Economic Fallout of COVID-19 Pandemic: Policy Choices and Experiences from BRICS and G20

Priyadarshi Dash
Assistant Professor, Research and Information System for Developing Countries (RIS)

Synopsis

- Emerging markets in the Asia-Pacific region represented by BRICS and G20 are caught in the “Essential Consumption” trap. It would take several quarters to expect economic recovery from the wear and tear of the pandemic.
- As observed by UNCTAD, most of the G20 countries have not contributed significantly to the global demand during 2018 and 2019. The implementation of fiscal stimulus packages in response to the COVID-19 may stimulate domestic demand in those economies and help accelerate global aggregate demand.
- Besides the US$5 trillion economic package by G20, co-financing by Multilateral Development Banks (MDBs), resource pooling by countries for joint R&D on medicines and medical equipment, and South-South and Triangular Cooperation would be necessary to mitigate adverse impacts of the pandemic.

Motivation and Objectives

As the COVID-19 has affected all countries in the world, the primary motivation for this paper is to assess the nature and depth of the economic consequences of the pandemic, including the policy choices and responses in BRICS and G20 countries. BRICS and G20 representing a sizeable fraction of the global output matters more in the post-pandemic global economic recovery relative to the contribution of other countries. In essence, the objective of the paper is to discern any pattern in characterizing the economic fallout and policy responses based on trends in secondary data.

Characterizing Economic Fallout

The COVID-19 pandemic is rapidly approaching a full-fledged economic crisis as sources of future global growth especially in emerging markets that are members of leading country groupings, for example, BRICS and G20 have already dwindled. India, China, Brazil, Mexico, Russia, and the rest of BRICS and G20 have not only witnessed large number of COVID-19-confirmed cases but also faced forced contraction of their economies in the first two quarters of 2020–2021 due to complete or partial lockdown. Fiscal and monetary policy choices adopted so far in the affected economies have been standard but with characteristics signaling course correction in medium- and long-term economic strategy. Meanwhile, the rationalization of public expenditure which was warranted as a result of disproportionately higher allocations of resources to health systems and infrastructure could yield precipitous slowdown in productive sectors of the economy as economic activities in emerging markets and developing economies are largely public sector-led and the “crowding-in” impact of public sector investments.

Although efforts to step up domestic production and R&D in different sub-sectors of health such as vaccine development, production of generic drugs, and innovations in testing
and treatment methods and techniques, are acting as stimulants for the BRICS and G20 countries, economic recovery from the “essential consumption trap” is not going to be easy in the coming months despite lowering of interest rates, a moratorium on working capital and consumption loans, debt waivers, among others. The impatience for achieving high growth in BRICS and G20 emerging markets both as a result of conscious policy and outcome of peer competition does not leave many rooms for radical policy maneuvering except intelligent packaging and sequencing of fiscal and monetary policy doses. In other words, achieving high growth is not a choice between “hard-landing” and “soft-landing” rather “landing and taking off safe.” This paper discusses the abovementioned complex interactions during and after the COVID-19 period drawing inputs from BRICS and G20 countries. The official commitments of BRICS and G20 to tackle the economic fallout of the COVID-19 are also discussed.

Figure 1

**Characterising Economic Fall-Out**

- **Pandemic in Force (strong predictability)**
- **Lockdown (Forced Contraction)**
- **Essential Consumption Trap**
- **Low Purchasing Power & Precautionary Saving**
- **Household Dissaving & Unemployment**
- **Fear Factor Stronger & Negligible Recovery of Business Activity**
- **Falling Output, Trade, Investment & Rising Uncertainty**
- **Economic Crisis (Weak predictability)**

Source: Drawn by Author.

Instead of providing a much-needed trigger for global growth, the BRICS and G20-emerging market economies are caught in the “essential consumption” trap (Figure 1). Since a lockdown was a known event, we define the initial outcome in the first weeks of lockdown as strong predictability because the magnitude of economic loss was somehow easy to comprehend based on past data in different sectors. However, in the course of the lockdown and unlocking with evolving economic circumstances, predicting the roadmap for economic recovery was still apparently unclear. After unlocking was announced a few weeks back, the anticipated surge in economic activity was not observed. The lower participation of people in the economy was primarily due to very strong fear in the minds of ordinary people. At present, unless otherwise required, nobody is in a mood to go out; hence, recovery is uncertain as individuals do have an incentive to go beyond essential consumption. The sequential path illustrated in Figure 1 indicates that the uncertainty in the economy could mature to the stage of economic crisis because predictability is weak as the nature and magnitude of the crisis are still unfolding.
Nature of Policy Response

Similar to the incidence of the COVID-19 on the economies, the policy response in BRICS and G20-emerging markets was also prompt and responsive. Ensuring healthcare had assumed the top priority followed by demand correction measures. The increase in the allocation of public expenditure to the health sector had resulted in constrained fiscal space. Some countries have approached the International Monetary Fund (IMF), Multilateral Development Banks (MDBs), debt relief, and others for short-term support so as to supplement the domestic resources at disposal. The core issue was to sustain fiscal support measures. Besides liquidity support, loan moratorium, and others, social protection measures were extended to vulnerable sections of society. Apparently, there exists enough scope in numbers of G20 economies to step up demand in response to fiscal stimulus. During 2018-19, the net contribution of G20 economies such as Argentina, Australia, Canada, France, Germany, Italy, Japan, Korea, Mexico, South Africa and Turkey was negative suggesting they depended on demand generated from the rest of the world than contributing to global aggregate demand (Table 1). Given the size and importance of these economies, fiscal stimulus triggering economic activities is likely in the post-pandemic period.
### Table 1: Structure of Global Demand (Avg. 2018-19, %)

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth of National Income</th>
<th>Net Domestic Injections to Global Demand</th>
<th>Net Private Sector Injection</th>
<th>Net Govt. Sector Injection</th>
<th>Structural Change in Export Performance</th>
<th>Absorption of ROW Relative to Domestic</th>
<th>Composite Index of Structure of Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>6.4</td>
<td>0.2</td>
<td>-1.0</td>
<td>1.2</td>
<td>1.2</td>
<td>-0.8</td>
<td>372</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.3</td>
<td>0.2</td>
<td>0.6</td>
<td>-0.4</td>
<td>0.4</td>
<td>-0.4</td>
<td>313</td>
</tr>
<tr>
<td>US</td>
<td>2.6</td>
<td>0.0</td>
<td>-0.8</td>
<td>0.8</td>
<td>-0.2</td>
<td>0.1</td>
<td>250</td>
</tr>
<tr>
<td>Other EU</td>
<td>2.2</td>
<td>0.2</td>
<td>0.3</td>
<td>-0.2</td>
<td>-0.8</td>
<td>0.6</td>
<td>210</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.3</td>
<td>0.9</td>
<td>2.4</td>
<td>-1.5</td>
<td>-0.8</td>
<td>0.3</td>
<td>193</td>
</tr>
<tr>
<td>UK</td>
<td>1.0</td>
<td>0.3</td>
<td>0.5</td>
<td>-0.2</td>
<td>-1.3</td>
<td>0.6</td>
<td>189</td>
</tr>
<tr>
<td>Russia</td>
<td>0.7</td>
<td>0.5</td>
<td>2.9</td>
<td>-2.4</td>
<td>-0.7</td>
<td>0.6</td>
<td>183</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>-0.3</td>
<td>0.1</td>
<td>3.5</td>
<td>-3.4</td>
<td>-1.4</td>
<td>1.2</td>
<td>136</td>
</tr>
<tr>
<td>India</td>
<td>7.1</td>
<td>-0.5</td>
<td>-1.4</td>
<td>0.9</td>
<td>0.9</td>
<td>-0.7</td>
<td>205</td>
</tr>
<tr>
<td>Turkey</td>
<td>3.7</td>
<td>-2.9</td>
<td>-4.4</td>
<td>1.4</td>
<td>0.9</td>
<td>0.6</td>
<td>162</td>
</tr>
<tr>
<td>Australia</td>
<td>2.7</td>
<td>-1.1</td>
<td>-1.0</td>
<td>0.0</td>
<td>-0.2</td>
<td>0.3</td>
<td>89</td>
</tr>
<tr>
<td>Korea</td>
<td>2.5</td>
<td>-0.7</td>
<td>-1.7</td>
<td>1.0</td>
<td>-0.7</td>
<td>0.7</td>
<td>84</td>
</tr>
<tr>
<td>Japan</td>
<td>1.1</td>
<td>-0.2</td>
<td>0.1</td>
<td>-0.3</td>
<td>-0.9</td>
<td>0.5</td>
<td>56</td>
</tr>
<tr>
<td>France</td>
<td>1.5</td>
<td>-0.4</td>
<td>-0.5</td>
<td>0.1</td>
<td>-1.0</td>
<td>0.7</td>
<td>56</td>
</tr>
<tr>
<td>Canada</td>
<td>2.0</td>
<td>-0.4</td>
<td>-0.3</td>
<td>-0.1</td>
<td>-1.0</td>
<td>0.5</td>
<td>54</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.6</td>
<td>-0.1</td>
<td>-1.1</td>
<td>1.0</td>
<td>-1.7</td>
<td>0.8</td>
<td>38</td>
</tr>
<tr>
<td>Argentina</td>
<td>-2.5</td>
<td>-0.4</td>
<td>0.8</td>
<td>-1.2</td>
<td>-1.1</td>
<td>0.7</td>
<td>36</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.9</td>
<td>-0.3</td>
<td>-0.8</td>
<td>0.5</td>
<td>-2.0</td>
<td>0.9</td>
<td>19</td>
</tr>
<tr>
<td>Italy</td>
<td>0.8</td>
<td>-0.1</td>
<td>0.3</td>
<td>-0.4</td>
<td>-1.7</td>
<td>0.8</td>
<td>15</td>
</tr>
<tr>
<td>Germany</td>
<td>1.3</td>
<td>-0.1</td>
<td>0.1</td>
<td>-0.2</td>
<td>-2.2</td>
<td>1.0</td>
<td>-3</td>
</tr>
</tbody>
</table>

Source: UNCTAD (2020)
Fiscal stimulus packages are the potent and desired instruments of policy support at this juncture for the emerging market economies. For yielding an effective outcome, investment in quality infrastructure and digital economy could form the core of the fiscal stimulus packages. Given the high infrastructure financing gap, investment in quality and resilient infrastructure would not only generate income but also contribute to long-run supply capabilities. Furthermore, investment in the digital economy/technologies which has been the backbone for the people and governments during long periods of lockdown is a sensible proposition. In fact, the social desirability of expanding digital infrastructure has been widely felt during the COVID-19 pandemic than before.

Table 2: Forms of Social Assistance

<table>
<thead>
<tr>
<th>Program</th>
<th>No. of Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash transfers (conditional and unconditional)</td>
<td>207</td>
</tr>
<tr>
<td>Universal one-off cash</td>
<td>4</td>
</tr>
<tr>
<td>Childcare support</td>
<td>10</td>
</tr>
<tr>
<td>Cash for work</td>
<td>9</td>
</tr>
<tr>
<td>Social pensions</td>
<td>14</td>
</tr>
<tr>
<td><strong>Sub-total (All cash-based measures)</strong></td>
<td><strong>244</strong></td>
</tr>
<tr>
<td>In-kind food/Voucher schemes</td>
<td>79</td>
</tr>
<tr>
<td>School feeding</td>
<td>21</td>
</tr>
<tr>
<td><strong>Sub-total (all in-kind measures)</strong></td>
<td><strong>100</strong></td>
</tr>
<tr>
<td>Utility and financial obligation (waiver/postponement)</td>
<td>111</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>455</strong></td>
</tr>
</tbody>
</table>

Source: Gentilini, Almenfi, Dale, DeMarco and Santos (2020)

Besides support to economy, it was important to address the poor and vulnerable segments in society, as the adverse impacts of economic shut-down were sharp and harsh for most of them. Table 2 provides the various forms of social assistance that were extended during the COVID-19 pandemic. Most of the policy measures were aimed at ensuring cash to the affected people, followed by food or in-kind support and waiver or postponement of financial obligations. Variants of those measures have been implemented across the world to mitigate immediate strains and anxiety in the communities.

Conclusion

BRICS and G20 countries have implemented standard measures similar to those typically adopted by other countries during crises. While these economies could judge the magnitude of economic losses that would happen due to the closing down of all sectors during
the early stages of the outbreak, predictability of disruption in the economy and recovery became gradually uncertain over time. However, early actions in the areas of ensuring essential supplies, addressing financial stress among firms and households, implementing fiscal stimulus programmes and the like by BRICS and G20 economies unilaterally and as groupings were extraordinary.

References

An Asian strategy for recovery and reconstruction after COVID-19

Shiro Armstrong
Director, Australia-Japan Research Centre; Director, East Asian Bureau of Economic Research; and Associate Professor, Crawford School, The Australian National University (ANU)

Synopsis

● Asian nations should proactively coordinate financial, trade, public health and food security policies to avoid prolonged economic stagnation and international disruption from the COVID-19 pandemic.

● The weight and potential of Asian economies will be central to global economic recovery from the COVID-19 crisis.

● Cooperation in Asia to effect immediate action and frame ongoing collaboration will help avoid unintended international consequences of nationally driven policy responses and a deeper and prolonged downturn.

● Regional and multilateral frameworks will increase the capacity to contribute constructively to regional and global recovery.

Full paper is Asian Bureau of Economic Research (2020).

As the world contemplates the savage impact of the COVID-19 on the global economy, there’s need to seize initiative in global cooperation to escape the slump caused by the health lockdown. International economic cooperation will be vital to managing the crisis and to supporting the recovery through trade, stabilising markets, and faster reopening of business supply chains and international travel. Without it, the world will face a prolonged health crisis and lasting economic stagnation on a scale not seen since the Great Depression.

In this geopolitically fractured world, international cooperation is no easy call. The United States, the world’s biggest power, has lost its appetite for multilateral cooperation and is at odds strategically with China, the world’s second largest power. Strategic competition between the United States and China ultimately limits both countries’ capacity to contribute constructively to global recovery.

A compact for multilateral cooperation between Asian nations can be the starting point. Middle powers will need to play a crucial leadership role.

Because of the weight and potential they have in the world economy, Asian economies are central to recovery from the COVID-19 crisis. Struck first by the virus, they are positioned to restart their economies sooner. Asia can help lead the exit from the crisis and be a vital source of global economic recovery.

Asia, like the rest of the world, has to deal simultaneously with twin challenges: the big international health challenges and the economic policy challenges of exit from the crisis. Failure to navigate judiciously between these two will cause social disruption, more deaths and economic hardship. The task of defining the way forward on both fronts at the same time is urgent.

An Asian experts group convened by the Asian Bureau of Economic Research released its Asian COVID-19 recovery strategy paper, calling for ASEAN+6 nations (ASEAN plus China, Japan, South Korea, India, Australia and New Zealand) to move rapidly to coordinate financial,
trade, public health and food security action to avoid prolonged stagnation and push the United States and Europe to join them.

The foundations for gearing up regional policy actions in Asia were laid at an ASEAN+3 summit last month that included leaders from Southeast Asia, China, Japan and South Korea, and committed to the health and economic policy coordination. Australia, given its record in managing the virus and its economic policy heft, has an important and influential contribution to make in working with its neighbours in ASEAN, Japan, India, South Korea and China in meeting the challenge posed by the virus.

There are six important objectives of this initiative in regional policy cooperation

- To get global central banks and finance ministries to expand bilateral currency swap arrangements and agree on a new issuance of Special Drawing Rights (SDRs) to create a stronger regional financial safety net. This would provide macroeconomic policy space and financial stability simultaneously to combat the public health and economic dimensions of the crisis in developing countries in the region and is a key Indonesian interest.

- Support the development, production and equitable distribution in Asia of diagnostic tests, a vaccine and treatments through collective commitment of funds to the WHO’s COVID-19 Tools (ACT) Accelerator and the expansion of the COVID-19 ASEAN Response Fund to include ASEAN+6 nations.

- Keep regional medical and food markets open. It is essential to avoid restrictions on trade in medical equipment and supplies after critical domestic needs have been met. This requires commitment by the region to reducing or eliminating tariffs and non-tariff measures on medical goods and services. Similarly, regional food security will depend on access to international markets and the removal of export restrictions that have been imposed. Current bilateral initiatives to keep food trade open can be consolidated into a regional agreement.

- Speed up the development of protocols for health certification for international travel to fast-track the resumption of international commerce, travel for study, scientific exchange, temporary labour movement, and tourism. Getting experts together to work through the issues is the first step.

- Embrace the digital transformation that the COVID-19 has brought to health management. Asia can initiate a proactive agenda for collective governance of digital infrastructure that includes regulatory coherence, privacy standards and data sharing. This is now essential to new work practices, innovation in production, supply chain management and delivery of goods and services, including government services.

- Conclude the Regional Comprehensive Economic Partnership (RCEP) agreement immediately to ensure regional trade solidarity. The early conclusion of RCEP with 15 members will send a global signal on keeping trade open, ensure food security and keep markets open in East Asia. The RCEP group needs to keep open a path for eventual Indian membership and actively promote economic cooperation with South Asia.

The COVID-19 crisis is now at the center of the maelstrom that is engulfing global economic and political affairs.
Asia can act to implement this agenda through its ASEAN, ASEAN+3 and ASEAN+6 arrangements, engaging the East Asian Summit countries including the United States, and the APEC and G20 forums, while stepping up to lead WTO and IMF reforms. Coordination through regional and multilateral frameworks will increase the capacity of all Asian nations to contribute constructively to regional and global recovery beyond conflictual geopolitics. Mobilising the political energy and will in Asia to deal with the international ramifications of the COVID-19 crisis immediately will be central to dealing with big global problems we face, to securing regional political stability and to restoring the early prospect of prosperity.

Reference
Impact of the COVID-19 on Global Economy: An Analysis Using Mobility Data from Mobile Phones¹

Satoru KUMAGAI
Director, Economic Geography Studies Group, Development Studies Center, Institute of Developing Economies (IDE), JETRO

Synopsis
● We had estimated the impact of COVID-19 on the world economy in early May 2020.
● The IDE Geographical Simulation Model (IDE-GSM) was used to calculate our estimates.
● Mobile phone location data provided by Google (COVID-19 Community Mobility Reports) were used to model the changes in the movement of people.
● It was estimated that one month of worldwide lockdown such as the end of March 2020 leads to a decrease in world GDP by an annualized rate of 4.2%.

About IDE-GSM
This paper estimates the impacts of COVID-19 on each country and region of the world, applying the Institute of Developing Economies’ Geographic Simulation Model (IDE-GSM), with newly available mobility data that tracks the movement of people.

The IDE-GSM facilitates the implementation of a variety of simulations through the modification of parameters and data on transportation networks. In this paper, we simulate the impact of reduced labor input, restricted land transportation in China and the EU, less frequent aircraft flights and rising overhead, and restrictions in the free movement of people.

Community Mobility Reports by Google
In early April 2020, Google made COVID-19 Community Mobility Reports (CMR) publicly available, at a sub-national level or national level for most countries.

The CMR shows the daily changes in the movement of people for six categories (residential, retail/recreation, glossary/pharmacy, workplace, parks, and transit stations). The baseline is the pre-COVID-19 period from January 3 to February 6, 2020. This valuable mobility data is free to download and reflects the changes in the movement of people surprisingly well. Figure 1 presents the differences in reduced mobility to the workplace for ASEAN countries.

¹ This paper is based on an excerpt from Kumagai et al. (2020)
Assumptions for Simulation

Our simulation of the impact of COVID-19 on the global economy incorporates the following three factors.

Decreased labor input: As reported in the CMR dated March 31, labor input to industrial sectors other than the service sector was reduced, according to the diminished mobility of people to the “workplace” category. Labor input to the service sector decreased, according to the average decline of movement to “retail and recreation” and “grocery and pharmacy.” Data on reduced labor input is available for each state in the USA, as the CMR provides state level data. As there is no CMR data available for China, our assumptions were compiled mainly on the dependency of inter-provincial migrant labor. The decrease in labor input in each province and city is assumed to be between 10% and 50%. For Hubei province, which was most severely affected by COVID-19, the labor input was reduced to 70% in the service sector and up to 95% in other industries.

Land traffic restrictions: In China, a 72-hour wait time for road and railway transport in and out of Hubei province was assumed at the provincial borders. In Europe, this was assumed to be six hours for routes between Schengen member countries, reflecting delays of border quarantine between countries; otherwise, free movement of people is ensured.

Less international flights: The frequency of flights in the model is reduced to reflect the less frequent international/domestic flights across the world. Furthermore, airfare/km was doubled to reflect the skyrocketing costs of air freight caused by limited capacity due to consolidation. Additionally, non-tariff barriers in services between countries were assumed to have doubled to reflect the impact of mutually imposed immigration restrictions.
Simulation Results

Tables 1 and 2 present the impact of COVID-19 by country/region. Global GDP is expected to contract by an annualized rate of 4.2%, with the most significant impact registered by the service industry. There is a substantial impact on the EU (−6.2%), while the effect on the USA (−3.7%) exceeds that of China (−2.9%).

In terms of the impact of COVID-19 on East Asian countries/regions, there is a relatively large impact on ASEAN (−3.7%) and Japan (−1.6%), while there is relatively small effect in Taiwan (−0.3%) and South Korea (−0.8%). These smaller impacts are due to successful public control of the spread of COVID-19 infections in Taiwan and South Korea. For these two countries, CMR data shows that movements to workplaces were down by only −1% and −12%, respectively.

Table 1: Impact of COVID-19 by country/region
(annualized rate relative to baseline GDP, 2020).

<table>
<thead>
<tr>
<th></th>
<th>World</th>
<th>EU</th>
<th>US</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>-2.3%</td>
<td>-3.7%</td>
<td>-2.9%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Automotive</td>
<td>-4.2%</td>
<td>-5.3%</td>
<td>-4.8%</td>
<td>-3.1%</td>
</tr>
<tr>
<td>E&amp;E</td>
<td>-3.9%</td>
<td>-4.8%</td>
<td>-4.4%</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Garment&amp;Textile</td>
<td>-3.3%</td>
<td>-4.7%</td>
<td>-4.0%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Food Processing</td>
<td>-4.0%</td>
<td>-5.1%</td>
<td>-4.5%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Other Manufacturing</td>
<td>-3.7%</td>
<td>-4.7%</td>
<td>-4.5%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Services</td>
<td>-4.6%</td>
<td>-6.6%</td>
<td>-3.7%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Mining</td>
<td>-1.4%</td>
<td>-1.9%</td>
<td>-1.7%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>GDP</td>
<td>-4.2%</td>
<td>-6.2%</td>
<td>-3.7%</td>
<td>-2.9%</td>
</tr>
</tbody>
</table>

Source: Calculated by IDE-GSM.

Table 2: Impact of COVID-19 by country/region
(annualized rate relative to baseline GDP, 2020).

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>Korea</th>
<th>Taiwan</th>
<th>ASEAN10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>-1.4%</td>
<td>-1.3%</td>
<td>-1.1%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Automotive</td>
<td>-2.5%</td>
<td>-3.0%</td>
<td>-2.2%</td>
<td>-2.8%</td>
</tr>
<tr>
<td>E&amp;E</td>
<td>-2.2%</td>
<td>-2.2%</td>
<td>-1.3%</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Garment&amp;Textile</td>
<td>-1.5%</td>
<td>-1.6%</td>
<td>-1.0%</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Food Processing</td>
<td>-2.4%</td>
<td>-2.5%</td>
<td>-1.7%</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Other Manufacturing</td>
<td>-2.2%</td>
<td>-2.2%</td>
<td>-1.5%</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Services</td>
<td>-1.4%</td>
<td>0.0%</td>
<td>0.2%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Mining</td>
<td>-1.0%</td>
<td>-0.9%</td>
<td>-0.8%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>GDP</td>
<td>-1.6%</td>
<td>-0.8%</td>
<td>-0.3%</td>
<td>-3.6%</td>
</tr>
</tbody>
</table>

Source: Calculated by IDE-GSM.
Of the ASEAN countries, the Philippines and Malaysia are most impacted, whereas the effect on the four CLMV (Cambodia, Laos, Myanmar and Vietnam) countries is comparatively small. For Indonesia, the impact is more substantial in urban areas like Jakarta, where service and manufacturing industries are concentrated.

Although there have been low overall numbers of infections in South American countries, the CMR migration data demonstrates a considerable reduction in migration, which has significantly impacted the simulation. It is possible that the small number of infections is a result of inadequate COVID-19 testing in this region at the end of March 2020. In Africa, the most significant impact is observed in South Africa and Morocco, while other countries experience comparatively smaller impacts.

Although our simulation is conducted based in an early stage of COVID-19 in April 2020, the estimated economic impacts do not differ from the estimation published in June 2020 by the IMF (Table 3). The third column presents the estimated GDP growth rates for the year 2020 by IDE-GSM, assuming that the lockdowns continue for two months and subtracting the impacts from the baseline estimation by IMF in the first column. The relatively small differences between third and fourth columns reveal the potential of the mobility data for estimating changes in economic activities exceptionally swiftly and accurately.

<table>
<thead>
<tr>
<th>Country</th>
<th>(A)IMF estimation (JAN 2020)</th>
<th>(B)IDE-GSM (One month)</th>
<th>IDE-GSM estimation (A)-(B)*2</th>
<th>IMF estimation (JUN 2020)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>0.5%</td>
<td>-7.6%</td>
<td>-14.6%</td>
<td>-12.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>1.6%</td>
<td>-7.5%</td>
<td>-13.3%</td>
<td>-12.8%</td>
</tr>
<tr>
<td>France</td>
<td>1.3%</td>
<td>-7.2%</td>
<td>-13.1%</td>
<td>-12.5%</td>
</tr>
<tr>
<td>UK</td>
<td>1.4%</td>
<td>-6.4%</td>
<td>-11.3%</td>
<td>-10.2%</td>
</tr>
<tr>
<td>US</td>
<td>2.0%</td>
<td>-3.7%</td>
<td>-5.4%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>China</td>
<td>6.0%</td>
<td>-2.9%</td>
<td>0.2%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.7%</td>
<td>-1.6%</td>
<td>-2.5%</td>
<td>-5.8%</td>
</tr>
<tr>
<td>ASEAN5</td>
<td>4.8%</td>
<td>-3.7%</td>
<td>-2.6%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>India</td>
<td>5.8%</td>
<td>-5.8%</td>
<td>-5.7%</td>
<td>-4.5%</td>
</tr>
<tr>
<td>Russia</td>
<td>1.9%</td>
<td>-4.8%</td>
<td>-7.6%</td>
<td>-6.6%</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.2%</td>
<td>-5.0%</td>
<td>-7.7%</td>
<td>-9.1%</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.8%</td>
<td>-5.9%</td>
<td>-11.0%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>World</td>
<td>3.3%</td>
<td>-4.2%</td>
<td>-5.1%</td>
<td>-4.9%</td>
</tr>
</tbody>
</table>

Source: IMF World Economic Outlook and calculated by IDE-GSM.
Conclusions

We have succeeded in estimating the impact of COVID-19 at an early stage of the pandemic applying the IDE-GSM, a computational general equilibrium model. To estimate the impact of COVID-19 correctly, the assumption of changes in labor input is the key, and Google CMR data on the mobility of people is valuable for making such assumptions regarding the reduction of labor input. This type of semi-real-time data provided by private companies will exert a significant impact on research in social sciences after COVID-19.

References


Google (2020). COVID-19 Community Mobility Reports
Available at https://www.google.com/covid19/mobility/

Making Trade More Resilient After COVID-19: A Vietnamese Perspective

Duong Anh Nguyen
Director, Central Institute for Economic Management, Central Institute for Economic Management, Vietnam (CIEM)

Thanh Tri Vo
President, Institute for Branding and Competitiveness Strategy / Central Institute for Economic Management, Vietnam (CIEM)

Synopsis
• The COVID-19 pandemic adversely affected Viet Nam’s trade activities via the weakening global demand and value chain disruptions, but Vietnamese enterprises attempted to adapt to the new context.
• In the new normal, Viet Nam had some opportunities from shift of global value chains towards ASEAN, promotion of innovation and digital technology, and new-generation free trade agreements (FTAs).
• Viet Nam should continue to be open to trade after COVID-19. In this context, ASEAN cooperation remains instrumental.

The global economy has undergone a period of high uncertainty and volatility. The downturn risks already became material even by 2019, particularly in advanced economies such as the US and EU (see IMF 2019, 2020). Geopolitical tensions increased in various regions and challenged global economic growth. At the same time, economic development and trade growth are further hampered by the rise in protectionism. In that context, the outbreak of the COVID-19 pandemic and associated unprecedented responses by governments all over the world led to adverse consequences to the global economy, including the disruption of trade activities. In turn, this seems to have produced a different triggering effect on the flows of foreign investment, as investors seek to diversify production bases (CIEM 2020).

Trade has been an important driver of Vietnam’s economic growth and development in the past three decades. Average export growth reached 17.6 per cent per annum during 1990-2019. Even difficult times of the world economic downturn in 2009-2010 still saw positive rates of export growth and import growth in Viet Nam. Specifically, Viet Nam’s export growth quickly recovered from -8.9 per cent in 2009 to 26.5 per cent in 2010. During the early years of the US-China trade war, the country managed to have positive export growth, 13.3 per cent and 8.4 per cent in 2018 and 2019, respectively. Additionally, while the foreign-invested enterprises dominated exports with a share of over 70 per cent before 2018, the domestic firms became more resilient during 2018-2019 with double-digit export growth rates.

However, the outbreak of the COVID-19 pandemic in 2020 and related responses disrupted the regional supply chain and questioned the resilience of trade activities in the country. Export growth decreased from 7.5 percent in the first quarter of 2020 to 0.2 per cent in the first half of 2020 (YoY). However, export activities started to rebound from July, and YoY cumulative export growth achieved 4.2 percent and 5.0 percent as of September and
October of 2020, respectively. Notably, import growth has been remarkably lower than export growth, which questions the sustainability of inventory for export production.

Underlying those observations are the several impacts of the COVID-19 pandemic on Viet Nam’s trade activities. First, global demand has weakened, which reduced the propensity to import in various markets. As an estimate by the CIEM (2020), each 1-percentage-point decrease in world GDP growth would cause Viet Nam’s export growth to contract by 1.6 percentage points. The cancellations of the order by importers in various markets became more popular in 2020. Second, different countries’ COVID-19 pandemic and border measures led to disruptions of the value chains, thereby adversely affecting Viet Nam’s trade. In particular, for such sectors with significant projected benefits from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and EU-Viet Nam FTA (EVFTA), such as textiles and garment, leather, food, and beverage, the disruption caused by the COVID-19 pandemic was also evident. Depending on the responses by Viet Nam to source domestic inputs, it may either benefit more from CPTPP and EVFTA or fail to participate in the regional value chains under disruption by the COVID-19 pandemic. Third, Vietnamese firms have somehow adapted to the new trade context. The increase in the export of medical masks has been remarkable in 2020.

From another perspective, the COVID-19 pandemic and associated contextual changes arguably brought about some opportunities for Viet Nam. First, the global value chains may shift further towards Southeast Asia. It was reported that 30 Japanese enterprises considered to move away from China, and 15 among them would opt for Viet Nam (Quynh Trang and Minh Nga 2020). Second, the COVID-19 pandemic induced the government and firms in Viet Nam to quickly promote innovation and use of digital technology. E-commerce has risen more drastically during the period of lockdown and social distancing in 2020. Policy dialogues in 2020 have become more accommodative of fintech. Finally, the economic opportunities generated by new-generation FTAs such as CPTPP and EVFTA appear to be ample, and well-received by the business communities in Viet Nam.

Looking forward, Viet Nam should continue to remain open to trade. We argue that Viet Nam could enhance its trade resiliency after the COVID-19 pandemic via several strands of efforts. First, Viet Nam should continue to deepen trade facilitation, including via implementation of FTAs such as CPTPP, EVFTA, Regional Comprehensive Economic Partnership (RCEP), and digital trade promotion. Second, Viet Nam should enhance the linkage between domestic enterprises and foreign-invested enterprises. Third, the country should further incorporate standards of sustainable development in trade and investment policy. Finally, more concrete reforms of the domestic business-environment would be essential. Reforms should adapt to the new normal as well. For instance, as the firms revert more to online meetings and negotiation, online dispute resolution would be complementary.

In all those policy directions, promoting ASEAN cooperation would be instrumental. On the one hand, by working together, ASEAN may be better positioned to shape the new center of global/regional value chains. In this regard, investment cooperation and investment liberalization would be beneficial, not only for attracting foreign investors but also helping to avoid the “race to the bottom”. On the other hand, ASEAN should continue to share experiences and promoting initiatives to improve “the sense of ASEAN”. It should be noted that Viet Nam had to work with ASEAN to mitigate issues related to regional shocks (such as the Asian monetary-financial crisis) just after its accession to ASEAN, which built up
experiences for effectively responding to the global financial crisis later. The room for capacity building within ASEAN remains ample, including but not limited to trade policy analysis after COVID-19, streamlining NTMs.

References


The impact of COVID-19 on the Lao economy and its recovery post-COVID

Latdavanh Songvilay
Acting Director General, Center for Macroeconomic Policy and Economic Restructuring, National Institute for Economic Research (NIER)

Synopsis
- Laos has been successful in avoiding a major local outbreak of COVID-19, but the economy has been significantly affected.
- The impacts have disrupted the recent growth and aggravated the long-term structural vulnerabilities and path of poverty reduction.
- The government has proposed several measures to foster economic recovery and resilience, including tax relief and deferrals to businesses, monetary expansion policy, and a credit moratorium.

Status of the pandemic
The COVID-19 pandemic remains a high uncertainty; many countries have faced several waves of outbreaks after governments relaxed containment measures. Laos became the last country in Southeast Asia to report its first confirmed case of the virus on 24th March 2020, and the number of confirmed cases had accumulated to 19 on 12th April. After 59 days of no new cases and all 19 confirmed cases discharged from hospitals, the government declared victory over COVID-19. Up to now, there are sporadic cases (in total 24 confirmed cases), but all of them have been isolated cases due to quarantine measures as they arrive in Laos. Therefore, it could be claimed that Laos has been successful in avoiding a major local outbreak.

The key success for Laos in containing the COVID-19 outbreak is clear government leadership by anticipating dangers and preparing early while having good compliance from communities. The government introduced all necessary containment measures similar to other countries such as implementing a nationwide lockdown from 30th March to 3rd May, while maintaining closed borders. As a result, according to the University of Oxford's government response stringency index, Laos received a relatively high score in combating the outbreak compared to other countries. The restrictions were gradually loosened as the situation became more relaxed, enabling schools to re-open, domestic travel to resume, and foreign travelers to gradually commute in compliance with regulations issued by the COVID-19 ad hoc Committee.

Economic sectors and labor market
Despite successfully containing COVID-19, the Lao economy was still impacted by the global economic downturn. The tourism sector was the most affected; the first six months of 2020, tourist arrival declined by 60%, which created a loss of more than $400 million. Tourism-related sectors such as travel agencies, accommodation services, restaurants and entertainment services, passenger transportation, and retail trade have been hit hard. Vientiane Capital and Luanprabang Capital are the most hard-hit areas. Investment has been slow or postponed as the government tightens labor and equipment movement difficulty as
the borders are closed. Small and Medium Enterprises (SMEs) are particularly vulnerable as they have fewer liquidity buffers and are more exposed to hard-hit sectors like the tourism sector. According to the business survey of European Chamber of Commerce and Industry in Lao PDR (ECCIL), more than 70% of the respondents estimate a loss of 50% or more of revenue.

The export-oriented sector has also been significantly hit by lower demand and supply chain disruption with export earn expected to lose more than $400 million. For example, the export of VITA Parts special economic zone and Vientiane-Nonthong special economic zone declined more than 60% from January to April, 2020. As a result, the economic prospect in 2020 is expected to grow at a historical low from 6.1% in 2019 to 3.3%. It could be further down due to uncertainty regarding the duration, pervasiveness, and severity of the COVID outbreak.

Additionally, the pandemic significantly impacts livelihoods and could push many people into poverty. According to the Ministry of Labor and Social Welfare survey, there are 63,029 affected labor or about 3.24% of labor force in Laos in 2017; this number includes labor returned from Thailand (both legal and illegal), and the figure is expected to increase once the survey in the last two provinces are completed. Thus, unemployment in 2020 is expected to grow from 9.4% in 2017 to around 20%. Since the Lao labor market comprises a large share of informal employment and workers outside the social insurance system, the labor protection or labor subsidy during COVID-19 is minimal. The pandemic has also affected the numbers of households who rely on remittance from abroad (about 9% of total households). According to the World Bank, more than 100,000 migrant workers have returned to Laos, which resulted in an estimated reduction of remittances in 2020 up to $125 million or around 0.7% of gross domestic products (GDP). Therefore, poverty in Laos is estimated to increase by 1.4 to 3.1 percentage points in 2020 due to COVID-19 (WB 2020).

**Government measures**

Laos has experienced long-structural economic vulnerabilities before the pandemic. Despite that, it has been among the fastest-growing countries globally during the last two decades, recording an average growth of around 7% per year, and declining to approximately 5.5% in recent years due to natural disasters. This robust growth has been driven by the capital-incentive resource sector and supported by infrastructure development; thus, the growth has been associated with rising debt and macro instabilities. According to the World Bank (2020), the COVID-19 shock could result in an elevated fiscal deficit, which is expected to rise to about 7.5% of GDP and public debt from 65 to 68% of GDP in 2020. Tight fiscal space and the mounting pressure of deficit financing and debt servicing will limit the ability of the government to stimulate the economy during the recovery. Additionally, COVID-19 is likely to make low foreign currency reserves further deteriorate as higher outflow of foreign currency occurs from imports and external debt payment; meanwhile, foreign currencies' inflow from Laos' exports, foreign investment, and official development aid (ODA) is lower, resulting in pressure on Lao Kip. Simultaneously, inflation has been high at nearly 6% on average for the first six months of 2020 due to higher food prices and exchange rate depreciation, affecting people's livelihood.

Despite the limited fiscal space, the government has proposed several responses and relief policy measures such as
1. To help households’ smooth consumption, personal income tax for employees earning less than five million Kip or about $550 per month from April to June has been exempted. Many tax payment deadlines such as road tax and land tax have been extended; electricity, water, internet, and garbage collection bills have been reduced for three months (April to June). To ensure a household’s affordability on essential items to prevent, protect, and fight against COVID-19, tariffs and relevant fees for imported items have been exempted. However, social assistance is very small with no COVID-specific response due to the social protection system in Laos only distributing face masks, hand washing gels, gloves, food, etc.

2. To support the business sector, tax payments for COVID-19 affected businesses and loosened monetary policy have been deferred. The Bank of Lao PDR (BOL) has reduced its policy rate from 4% to 3% and reduced reserve requirement ratio from 5% to 4% for Kip and from 10% to 8% for foreign currency. In addition, the BOL has also requested commercial banks to reduce interest on loans, extend new loans to businesses, and carry out loan restructuring for businesses that are adversely affected by the COVID-19 pandemic. However, support has not reached many firms as it is not the government’s direct support but through commercial banks’ voluntary base.

3. To stimulate the economy and promote Lao SMEs, the government’s SME fund has injected 100 billion Kip (around $10 million) in financing for SMEs in the form of long-term low-interest loans through commercial banks. However, many SMEs face difficulty accessing the funds due to their inabilities to conduct a sound business plan and have proper accounting bookkeeping.

References

Impact of COVID-19 on Household Consumption Behavior

Ni Lar Myint Htoo
Professor, Yangon University of Economics (YUE)

Synopsis
● Changes in the nature of work, consumption, and social life during the pandemic period are analyzed using original survey data.
● It is evident that there has been a reduction in participation in social activities.
● Survey results indicate the people of Myanmar have adapted to the “new normal” patterns of life.
● The pandemic stimulated consumers’ transition to digital commerce.

The COVID-19 pandemic has spread around the world and people have suffered from socio-economic disruptions including health, education, trading, investment, production, employment, and government finance. At the same time, government and stakeholders have implemented measures to mitigate inevitable economic impact with the supports of domestic and international organizations. The livelihoods of people in Myanmar have been unavoidably affected by risks and uncertainty due to the pandemic. Obviously, people in urban areas have changed their daily lifestyles, particularly in work and consumption. Thus, investigation of the impact of COVID-19 is essential to assist the establishment of policy measures and coordination among ministries, stakeholders, and local communities for the near future. To analyze how consumption behavior has changed, this study investigated the changing nature of work and life during the pandemic period. The descriptive analysis method was applied, and the primary data were collected using a structured online questionnaire survey of 398 respondents who are current students and alumni of Yangon University of Economics. The survey period was from 2 to 9 September 2020.

According to results of the survey, which covered changes in the nature of work and income, the nature of about 28% of respondents’ work has remained unchanged. For the remaining respondents, the nature of their work has changed, such as reducing their working days/hours, working from home (WFH), moving to another job, and some respondents indicated their jobs had been terminated. Although about 57% of respondents have experienced no change in their income, the remaining 43 % have experienced some change as an impact of COVID-19. Regarding “Spending on Household Equipment” during the pandemic, spending on domestic appliances (e.g., air conditioner, durable goods, and entertainment devices) has increased almost by 67% and the use of personal computer/laptop due to WFH increased.

The majority of people in Myanmar, especially in the Yangon region avoided going out for meals due to fear of contracting COVID-19. The results revealed that a total of 89.9 % of respondents indicated they consumed more home-cooked meals. It is found that the use of

---

1 This work has been prepared by a research team at the Yangon University of Economics comprising Prof. Dr. Ni Lar Myint Htoo, Prof. Dr. Cho Cho Thein, Prof. Dr. Nu NuLwin, Prof. Dr. Mya Thandar, Prof. Dr. KhinThida Nyein, Prof. Dr. Aye Thu Htun, Prof. Dr. Tin TinWai and Prof. Dr. Tha Pye Nyo.
food delivery service is increased and people are relying more on digital commerce. About 23.6% of respondents indicated they purchased food for themselves only. Some respondents (26.1%) purchased delivery food. Respondents’ consumption spending on food and beverages has slightly changed. Most indicated that total monthly expenditure on food, especially on rice, cooking oil, and basic food items like sugar, salt, etc., are not changed. However, the consumption of some food items such as snacks, instant food, and fruit has increased, especially by those aged between 18 to 30. However, for respondents aged 50 and above, consumption of such items has slightly declined about 32% out of total food consumption. A total of 30% of respondents indicated their spending on vegetables and fruits has increased.

As people need to increase their communication if they are in lockdown, the use of mobile phone/handset increased by 27% and the results reveal a 57% cumulative increase in spending on mobile phone lines during the pandemic period. About 72% of respondents increased their spending on internet services and social media. Consumers have also adopted new technologies. The obvious example is Zoom video services for online meetings and e-learning.

In terms of personal care products, about 85% of respondents spent more of their income on such products than before the pandemic. A total of 76% of respondents indicated that their use of sanitizers has increased. The global hand sanitizer market is projected to grow during this period. The growing demand for wellness and health products and a rising rate of diseases is said to have increased the demand for hand sanitizer. In addition, many respondents indicated they use health care products more than the past, especially medicines, masks, and gloves to protect against infection. This study found that 64% and 86% of respondents increased spending on gloves and masks, respectively. Many people in the community wear face masks and gloves in an attempt to protect themselves against COVID-19. Approximately 60% of respondents increased their spending on pharmaceutical products, vitamins, and herbal medicine. Respondents are consuming more vitamins to increase immunity to COVID-19 and to reduce the risk of contracting the virus. About 49% respondents indicated they had reduced their visits to clinics due to the fear of being infected and only visiting clinics in cases of emergency. Demand for online consultations (tele-consultations) with doctors has increased since the first wave of COVID-19.

Regarding social behavior, most respondents decreased their participation in social activities by 76–100%. Specifically, sporting activities at gyms, stadiums, swimming pools, and golf clubs decreased most significantly due to precautions to prevent the spread of COVID-19 and the government’s “stay at home” announcement. There has also been a noticeable reduction in visiting public areas and entertainment, as well as participating in social occasions (wedding, donation, birthday party, reception, etc.). The smallest reduction has been in visiting shopping centers, supermarkets. Public areas such as pagoda, parks, and karaoke are closed to avoid crowds gathering. Purchasing food to take away is allowed for teashops, restaurants, and snack shops. As expected, online grocery shopping has increased due to lockdowns and a general hesitation to visit large and often busy supermarkets. Respondents were familiar with social distancing and recognized that social behavior has completely changed to the “new normal” pattern. This situation is expected to continue in the future until COVID-19 can be effectively dealt with and overcome. Due to the spread of COVID-19, countries are taking actions such as self-quarantine and the temporary closing of businesses and markets and normal food-related purchasing and consumption practices have
In general, consumer priorities have become centered on basic needs and most people are trying to re-evaluate on their consumption of food to achieve healthier lifestyles to overcome COVID-19. Hence, people have become markedly more conscious about their eating habits. Some people are eating more healthily to boost their immunity and having more balanced meals. Even though the public health care system in Myanmar seems to have some control over the spread of the disease, community engagement plays a key role in controlling the virus. It is apparent that involvement of communities in activities such as sharing updated information and knowledge on preventive measures for COVID-19, supporting the required equipment and supplies for quarantine centers and other areas, tracing those who become infected, building community confidence and psychological wellbeing, and so on have occurred during the outbreak in Myanmar.

**Figures**

### Change in Nature of Work

<table>
<thead>
<tr>
<th>Change in Nature of Work</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Change</td>
<td>113</td>
<td>(28%)</td>
</tr>
<tr>
<td>Reduce working day/hour</td>
<td>123</td>
<td>(31%)</td>
</tr>
<tr>
<td>Work from home</td>
<td>171</td>
<td>(43%)</td>
</tr>
<tr>
<td>Terminate</td>
<td>10</td>
<td>(3%)</td>
</tr>
<tr>
<td>Move to another job</td>
<td>4</td>
<td>(1%)</td>
</tr>
<tr>
<td>Other</td>
<td>22</td>
<td>(6%)</td>
</tr>
</tbody>
</table>

### Arrangement for Daily Consumption

<table>
<thead>
<tr>
<th>Arrangement for Daily Consumption</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home-made food</td>
<td>358</td>
<td>(89.9%)</td>
</tr>
<tr>
<td>Purchased food with delivery service</td>
<td>104</td>
<td>(26.1%)</td>
</tr>
<tr>
<td>Self-purchased at the shop/restaurant/m...</td>
<td>94</td>
<td>(23.6%)</td>
</tr>
</tbody>
</table>
References


Impacts of coronavirus disease 2019 and implications for sustainable development in the Philippines

Adoracion M. Navarro
Senior Research Fellow, Philippine Institute for Development Studies (PIDS)

Synopsis

- The impacts and implications of the pandemic are assessed using the United Nation’s approach of framing the sustainable development outcomes under three pillars, namely, people, prosperity and planet, and peace.
- The pandemic is giving rise to risks of reversal in recent gains in human development, as demonstrated by a simulation of the Philippine human development index.
- Sector-specific impacts were felt by firms and businesses, the energy sector, and the environment, but the pandemic also offers some opportunities for the Philippines to rethink strategies, such as the transition to cleaner energy sources, public transportation reforms, and rapid digitalization and e-commerce.
- There are impacts on humanitarian and peace building efforts and the response to the pandemic also affected the fiscal programming for the peace process in Mindanao.

The Coronavirus Disease 2019 (COVID-19) pandemic as a human health crisis and a shock to economic growth is affecting sustainable development in the Philippines through real economy transmission channels, fiscal channels, and socio-political structures. Using the leave-no-one-behind framework and taking off from the analysis of the national baseline on sustainable development goals, this study assesses the impacts and implications of the pandemic by employing the United Nation’s (UN) approach of framing the sustainable development outcomes under three pillars, namely, people, prosperity and planet, and peace.

The Philippines has the highest number of COVID-19 cases in Southeast Asia as of October 12, 2020. The country officially entered a recession in the second quarter of 2020, with a contraction rate of −9% in the first semester. This large contraction has put into question the validity of the previous Philippine development planning assumptions and the existing national strategies. The government thus revised its macroeconomic projections and estimated 2020 contraction to range from −4.5 percent to −6.6 percent, and then full recovery in 2021 with growth to range from 6.5 percent to 7.5 percent. However, containing the spread of the virus and enabling quick economic recovery depend not only on lockdowns and the cooperation of the public but also on the capacity of the health system to respond to the pandemic. The Philippines has to improve significantly in this respect given that the country is rated below the average in the preparedness dashboard of the UN Economic and Social Commission for Asia and the Pacific.

With respect to the people pillar, non-COVID health services delivery is already being affected. Before the pandemic, polio re-emerged due to low public confidence in vaccination

---

1 The authors of the study, which was ongoing at the time of the RIN Workshop, are: Adoracion M. Navarro as lead investigator and Celia M. Reyes and Kris A. Abrigo as co-investigators.
and thus, the government engaged in a nationwide anti-polio vaccination campaign. However, this campaign was delayed during the lockdown periods. There had also been disruptions in services related to HIV, hepatitis, and sexually transmitted diseases. The lockdowns also resulted in restricted access to reproductive and maternal health services, with adverse consequences, such as a projected rise in maternal deaths and an increase in teenage pregnancies. Mobility restrictions, disruption in economic activities, and income losses also gave rise to serious food insecurity and reduced nutrition among households. Although the sustainable development goal trajectory for education suggests that significant improvements were happening before the pandemic, the recent drastic change in education service delivery, which is a combination of online learning and the use of printed modules, might worsen inequality unless critical investments in digital infrastructure are made. Moreover, the pandemic is giving rise to risks of reversal in recent gains in human development. The Philippines’ human development index (HDI) value for 2018 is 0.712 and is ranked 106th out of 189 countries and territories, making the country in the high human development category. Given the expected impact on average life expectancy at birth, the decline in education indicators, and the projected decline in gross national income per capita, a simulation for the study calculated that the Philippine HDI in 2020 could be 0.708, a setback of three years.

On the prosperity and planet pillar, sector-specific impacts were felt by firms and businesses, the energy sector, and the environment. The containment measures for the COVID-19 have forced many business enterprises to temporarily close, limit, or permanently cease their operations. This heavily affected workers in private establishments, service and sales workers, elementary occupations, and self-employed individuals. While some businesses resorted to work-from-home setup to continue their operations, most of the occupations in the country are not appropriate for teleworking or the work-from-home setup. Work opportunities for many overseas Filipino workers (OFW) were also affected by the mass grounding of cruise ships, slow economic growth in affected countries, and the travel bans implemented to curb the rise of COVID-19 infections. Consequently, OFW cash remittances declined, making it unlikely for remittances to keep the country buoyant during the crisis. The containment measures imposed to curb the spread of the COVID-19 had also altered energy demand for different sectors, leading to a decrease in carbon dioxide emissions during the quarantine period. However, this proved to be temporary only as emissions rebounded back to the pre-quarantine level after the restrictions were lifted. The pandemic also highlighted the issue of managing medical waste, which amounts to 280 metric tons of medical waste daily, and this poses environmental problems. Nevertheless, the pandemic offers some opportunities for the Philippines to rethink strategies, such as the transition to cleaner energy sources, public transportation reforms, and rapid digitalization and e-commerce.

---

3 Given that the initial data on enrolment indicators were incomplete at the time of the RIN workshop on October 12, 2020, the computed HDI presented at the time was 0.701, representing a setback of five years. However, the updated and final data later yielded a simulation result that Philippine HDI might set back by three years.
The pandemic and containment measures are also affecting the nexus among humanitarian, peace-building efforts, development, and human security in conflict-affected areas, especially Mindanao. Given the large number of internally displaced persons (IDPs) due to conflicts and disasters, challenges related to economic and security disruptions on the IDPs must be addressed. Protracted displacement deepens inequality. Thus, resources must be made available for ensuring that the IDPs’ risk of virus exposure in cramped living conditions is minimized and that they are able to eventually be integrated into communities. Moreover, there should be additional humanitarian support for life-saving and evolving needs, such as shelter, food relief, water, sanitation and hygiene facilities, livelihood, and emergency health services, which must be calibrated to the context of the COVID-19. A major concern is that the fiscal programming to respond to the pandemic resulted in a drastic cut in the proposed budget for the normalization component of the peace agreement with the Moro Islamic Liberation Front (MILF) in Mindanao. The normalization involves phased decommissioning of former MILF fighters, giving them transitory cash assistance, and delivering socioeconomic programs for their families and communities. The legislature’s deliberations on the 2021 proposed budget were still not finished at the time of writing the study. However, the study recommends that risks to the target milestones in the peace agreement should be assessed, and if gaps exist, then new ways of funding the interventions must be designed. In the COVID-19 environment, extra effort is needed to ensure that peace dividends are protected and stakeholders do not slide back on commitments.
Pandemic Economics: the impact of the COVID-19 pandemic on the Malaysian economy

Calvin Cheng
Analyst, Institute of Strategic and International Studies (ISIS), Malaysia

Synopsis

- COVID-19 has had devastating impacts on the Malaysian economy. The sources of damage to the Malaysian economy are twofold: The first is the external, arising from the impacts of the coronavirus abroad; while the second is domestically generated due mainly to earlier nationwide movement restrictions.

- In terms of economic growth, the impacts from the crisis have been severe. The Malaysian economy contracted by 17.1 percent year-on-year in 2Q2020—the steepest amount since the aftermath of the Asian Financial Crisis in 1998.

- The COVID-19 crisis has also deeply affected the Malaysian labour market and Malaysian workers. The unemployment rate is still hovering at multi-decade highs, while marginalised worker groups like women, youth, and lesser-educated workers have been the hardest hit by the COVID-19 crisis.

- There is still room for more fiscal expansion. Due to the unprecedented nature of the COVID-19 crisis and the large distributional impacts, policy action can go even further to alleviating some of these pressures in the immediate-term as well as increasing economic growth and productivity for the longer-term.

Malaysia’s first COVID-19 case was detected on 25 January 2020. By March, the number of new daily coronavirus infections had risen significantly, prompting the Malaysian government to announce nationwide movement restrictions on 18 March 2020. Despite initially doing well in curbing infection rates—with the nationwide movement restrictions gradually relaxed by May 2020—a new wave of infections started in September 2020. The case numbers have ballooned again.

Beyond public health, COVID-19 has had devastating impacts on the Malaysian economy. The sources of economic damage are twofold: external, arising from the impacts of the coronavirus abroad, including softer external demand and greater global uncertainty; and domestically generated due to income and production impacts arising from the implementation of social distancing and closure requirements as part of the nationwide movement controls.

The main external channel of transmission of the COVID-19 shock is through trade linkages (Cheng 2020 b). Lockdown measures worldwide have reduced global demand for Malaysia’s exports, which was already facing pressure in 2018 and 2019 from increased trade uncertainty amid the US-China trade conflicts. This is compounded by the fact that the Malaysian economy is amongst the highest exposed to trade and is amongst the most connected in terms of global value chains in the Asia Pacific region. The second source of

economic shocks is domestic. The movement restrictions, while an essential measure to reduce the outbreak of the coronavirus in Malaysia, has had enormous economic costs. The mandated closure of businesses and services and movement restrictions has devastated consumption and investment and created wide-ranging impacts on both supply and demand.

In terms of economic growth, the impacts from the crisis have been severe. The Malaysian economy contracted by 17.1 percent year-on-year in 2Q2020—the steepest amount since the aftermath of the Asian Financial Crisis in 1998. Subsequently, the gradual relaxation of movement controls allowed the pace of decline to ease, with Malaysia’s 3Q2020 GDP (gross domestic product) recording a 2.7 percent decline. But unlike the swift economic recovery Malaysia made during the aftermath of the Global Financial Crisis in 2009, this time around, Malaysia’s recovery to pre-crisis levels of GDP will be slow (Cheng 2020a). Back in 2009, a sharp recovery in oil and electronic exports along with a surge in foreign investment allowed GDP to return to pre-crisis levels in less than a year. Today, low global energy prices, muted demand from the world’s major economies, and a likely slow recovery in global trade make a “V-shaped” recovery far less likely.

Besides its effects on economic growth, the COVID-19 crisis has also adversely affected the Malaysian labour market and Malaysian workers. Measures of labour market slack reached the highest levels in decades, with recent data showing the headline unemployment rate still hovering at multi-decade highs even as movement controls have been relaxed. Yet, beyond the headline unemployment rate, recent research has also shown that there have been drastic distributional impacts in Malaysia (Cheng 2020d). Marginalised worker groups like women, youth, and lesser-educated workers have been the hardest hit by the COVID-19 crisis, while higher-educated male workers have been largely protected from the employment impacts of the pandemic. At the same time, there is evidence of high levels of labour market exit for women and youth workers in recent months as labour market conditions deteriorated (Cheng 2020d). Overall, the crisis has deepened existing inequalities in the economy and society.
In response, the Malaysian government has allocated an estimated RM 305 billion in fiscal and non/quasi-fiscal measures to respond to the COVID-19 crisis since the start of the year to November 2020. However, while the total announced package size amounts to about 20 percent of GDP, actual fiscal measures only amount to about 3.8 percent of GDP, or about RM 55 billion. The remaining RM 250 billion consists broadly of non-fiscal or quasi-fiscal measures, including initiatives like moratoriums on debt repayments and loan guarantees for small businesses, which are borne not by the federal government—but by government-linked entities or by the financial sector. Indeed, in terms of actual fiscal measures, estimates based on publicly available reports suggest that Malaysia’s fiscal measures to combat COVID-19 (as a percentage of GDP) is actually the second-lowest in the ASEAN region after Vietnam.
Yet, due to the unprecedented nature of the COVID-19 crisis and the large distributional impacts, policy action can go even further to alleviating some of these pressures in the immediate-term as well as increasing economic growth and productivity for the longer-term (Cheng 2020c).

The first is to further expand and improve social safety net programs like Malaysia’s Employment Insurance Scheme (EIS) unemployment insurance program and the Bantuan Sara Hidup (BSH) income-targeted cash transfer program. Temporarily relaxing eligibility and increasing the coverage of social assistance programs for workers and households can help vulnerable groups better weather the unprecedented shocks from the COVID-19 crisis. Simultaneously, making efforts towards consolidating fragmented social assistance programs into fewer large programs administered by a single ministry/agency will increase administrative efficiency, reduce targeting costs and make it easier for beneficiaries to apply for and receive social assistance.

Secondly, increasing government spending even further to boost aggregate demand and tighten labour markets will greatly benefit marginalised and vulnerable worker groups the most. Even as multiple stimulus packages are already underway, there is still room for fiscal expansion—particularly if economic conditions worsen further in the coming months. Here, government spending can be focused on increasing infrastructure spending. Research shows that raising infrastructure spending can raise long-term productivity and economic growth, especially if financed by higher government deficits and undertaken during a recession (Stupak 2018).

Thirdly, improving fiscal space by relaxing fiscal rules and improving government
revenue sustainability. The required increase in government spending and expansion of various stimulus packages would mean that the government will eventually need to contend with fiscal rules that limit its ability to spend. The most urgent would be to amend fiscal rules that restrict the use of debt to finance operating expenditure. This would require an act of parliament to temporarily allow the use of debt to finance the increase in operating expenditures from the COVID-19 economic response packages. Furthermore, diversifying Malaysia’s government revenue streams need to be done via increasing revenue collection from consumption taxes while broadening the tax base and increasing tax compliance.

References


Cheng, C. (2020c). We’re Already in a Global Recession: Here’s What We Can Do. ISIS Insights, 18 May 2020. ISIS Malaysia. Available at https://www.isis.org.my/2020/05/18/were-already-in-a-global-recession-heres-what-we-can-do/


The Impact of the COVID-19 pandemic on air transport industry with a particular focus on Thailand

Salilorn Thongmeensuk
Research Fellow, Thailand Development Research Institute (TDRI)

Titaporn Rojsirikulchai
Researcher, Thailand Development Research Institute (TDRI)

Synopsis

⚫ The COVID-19 outbreak has significantly affected the air transport industry due to the travel ban policies and the decline in demand among domestic and international travellers.

⚫ The significant reduction in the number of travellers has brought about a substantial drop in the number of flights, which enormously diminished incomes for airlines, leading to financial disruption. This research thus provides an analysis of the demand and supply of Thai aviation services and an estimation of future demand in the post-COVID-19 era.

⚫ Owing to the significant fall in their revenues, Thai airlines are encountering a multitude of legal ramifications. This research explores the options for airlines under international laws and Thai laws when facing potential liabilities arising from financial disruption during and after the COVID-19 pandemic.

⚫ This research suggests some forms of government support measures to the air transport sector in Thailand following the outbreak of the COVID-19.

The outbreak of coronavirus has had a devastating effect on Thailand’s aviation industry. Both international and domestic flights have dramatically diminished or stopped altogether. The regulatory scheme governing air transport is in a state of fluctuation as the COVID-19 pandemic progresses. A myriad of legal issues may arise due to the administrative containment measures imposed by the relevant public authorities. In addition, the airlines may likely encounter difficulties in balancing passenger rights and safety. Thus, they must take precautionary steps in demonstrating that their actions conform to the laws and regulations under these unprecedented circumstances. For instance, in accordance with the declaration of a state of emergency in Thailand on 25 March 2020, foreigners were restricted to enter Thailand effective 26 March 2020. Moreover, the Civil Aviation Authority of Thailand announced that Thai nationals wishing to return to Thailand must present a travel certificate issued by the Embassy of Thailand, the Consulate General of Thailand, or the Ministry of Foreign Affairs within 72 hours before traveling. However, in this case, whether the passengers have the rights to refund if he or she fails to present such a certificate is still uncertain.

This research investigates the impacts of the COVID-19 pandemic on the demand and supply for air transport in Thailand. Moreover, the study attempts to identify structural perspectives of the aviation industry which could shape the future scenario of other related impacts and further present recommendations for the air transport sector to prepare for the recovery period. At the same time, this study explores the legal challenges facing air carriers
caused by the pandemic. The challenges include the potential liabilities of air carriers for the delay or failure to transport passengers and cargoes. Furthermore, the research explores the viable options for aircraft lessees and lessors available under the Thai laws in case of lessees’ default owing to the lack of cash flow.

The supply and demand in air transport are measured by flight volumes and the number of passengers in domestic and international markets. In Thailand, the number of passengers which represents the demand for Thai aviation drastically decreased by approximately 99% in both markets due to the extension of a temporary ban on all international flights. In general, domestic travel has recovered faster than international travel. From the experiences of the United States and China, the countries or regions which contain a greater percentage rate of domestic passenger traffic may recover faster. Thai domestic aviation can also be applied to this case as the share of domestic passenger traffic in Thailand is 56% of the overall passengers. In addition, domestic passengers started to recover at the end of August at the rate of 43% compared with the beginning of the year after the deregulation of cross-provincial travel measures.

Although the number of passengers is increasing due to the gradual rise in demand for air travel, the government still limits the number of flights per day. As a result, most seats on a flight are occupied, and many air passengers have to reserve their flights in advance for over two months. This case makes the supply of air transport recover for only 29.45%.

With reference to the air freight market in Thailand, air freight has played an essential role in supporting the trade driven by e-commerce. However, owing to the COVID-19 pandemic, the online demand for products increases significantly. Considering that the government still partially limits the number of air services, the number of freight services is the same as that in passenger services because air cargo is mostly delivered together with the passengers.

As a consequence of the significant decrease in demand, a vast majority of air carriers are encountering a substantial fall in their revenues. The aviation industry is facing a myriad of legal issues as a result of the financial disruption, including potential air carrier liability for claims by passengers and others under a variety of scenarios, such as the airlines’ liability for the failure or delay to transport freight or passengers. For passenger delays, the Montreal Convention allows the air carriers to make two defenses: (1) the passenger is similarly at fault for such a delay, or (2) the airline has taken necessary measures that could reasonably prevent the damage. As for the cases of the failure to transport passengers and cargoes, the airlines might be able to invoke force majeure excuses stipulated under their contracts of carriage.

At the same time, during the financial crisis, the aircraft lessees may not be able to fulfil rental and maintenance reserve payment obligations. In this circumstance, the aircraft lessors and lessees have several alternatives under Thai laws. The alternatives include payment restructuring, repossession upon lessee’s default, or litigation for monetary damages against lessees. The lessees may call upon force majeure to temporarily relieve their payment obligation. Last, it should be noted that the lessors should prepare for the circumstances where the lessees use bankruptcy law and join the rehabilitation process.

The research essentially finds that to mitigate the impacts of the COVID-19 outbreak on the airline industry, the government must provide some sector-specific mechanisms to ensure that the industry would survive. In Thailand, the government has employed some mechanisms to support the financial crisis of the airlines through this unprecedented time.
The mechanisms implemented by the government include reduced parking fees, lower air navigation charges for domestic and international flights, discounted arrival and departure fees, and discounted jet fuel excise for domestic flights. In addition to these specific mechanisms for aviation, the government has implemented an assistance package, such as loan payment holidays and delicate advances.

To further support the industry, the government has numerous options to additionally consider, including the following:

- The direct grant of financial support to air carriers to compensate for decreased revenues and liquidity caused by movement restriction measures imposed owing to the COVID-19.
- The extension of the scope of eligibility of corporate bonds to provide access for a broader range of corporations.
- The support of the airlines’ initiative to repurpose their passenger planes to fly cargo-only.
- The temporary waives of ticket taxes and other types of levies charged by the government.
Rethinking Supply Chain Strategy amidst COVID-19 and Trade War: Thailand's Perspective

Punpreecha Bhuthong
Senior Researcher, Thailand Development Research Institute (TDRI)

Synopsis

- Thailand has lost its competitiveness in recent years, especially compared to other ASEAN member states (AMS).
- Critical weaknesses of Thailand’s competitiveness are government inefficiency, the prevalence of non-tariff barriers, labor shortage and quality, and innovation capability.
- COVID-19 and trade wars have led to adjustment by firms in the supply chain to diversify the source of inputs or relocate their production base to other countries.
- Thailand needs to hasten digital transformation, reform the education system and put the right support in R&D.
- Thailand also needs to accelerate and strengthen regional integration and enhance trade facilitation.

In the past few years, Thailand has lost its competitiveness, especially compared to other ASEAN member states (AMS). Amidst the trade war and current pandemic, this paper discusses Thailand’s competitiveness situation in the global value chain (GVC) and recommends strategies to cope with challenges and improve its competitiveness.

Over the last decade, the Thai economy has been somewhat in a slowdown. Real GDP growth has slumped to below 5% in the past five years which is lower than other AMS (Figure 1). Thai export growth has also been declining (Figure 2). Particularly, there has been a recent sign of slowing in Thailand’s export of intermediate goods. During 2010-2016, Thailand’s exports of intermediate goods grew at an average of just 1.3% per year, while Vietnam and the Philippines' exports of intermediate goods grew rapidly at 20.3% and 8.1% per year, respectively.
In addition, Thailand has a declining role in the global supply chain. During 2010-2015, Thailand’s participation in GVC has declined. In fact, GVC participation for most AMS has also gone down during 2010-2015 (Figure 3). However, the forward linkage ratio for Vietnam and the Philippines improved owing to increasing intermediate goods exports, especially in electronics.
Remarkably, according to the competitiveness index by the World Economic Forum (WEF), Thailand’s rank went down from 38th in 2018 to 40th in 2019, out of 141 countries. One of the critical weaknesses for Thailand that WEF pointed out is government efficiency. From the report, Thailand’s government efficiency dropped seven positions to 67th in 2019. A decline in the ranking of government efficiency is mainly due to government transparency problem as corruption is still the main obstacle in doing business in Thailand. In addition, redundant and outdated laws and regulations also increase cost and delay in doing business and reduce competition.

In the context of market efficiency, Thailand’s rank for trade openness has dropped owing to the prevalence of non-tariff barriers and the high complexity of tariff structure. This would also increase the cost of business and discourage trade.

Equally important, Thailand faces a considerable shortage of qualified technical and vocational workers across industries (Tan and Tang, 2016). According to the World Bank, 83.5% of the workforce in Thailand is unskilled. Among the reasons for the shortage of skilled labor are that the Thai education system has failed to provide the right skill to meet employers’ needs, educational inequality, and education quality (Chantapong, 2012).

Moreover, Thailand still lacks innovation and the capability to climb up the value chain. Thailand rarely develops its innovations or technologies. Over the past two decades, there has been a significant increase in skill and technology content in the manufacturing sectors, especially for exports in automobile and electronic industries. However, only a small number of firms have engaged in R&D innovation activities (United Nations, 2015). Recent evidence from electronics and automotive indicates that even though Thailand slightly moved up the value chain from 2010 to 2015, Thailand’s position still lies downstream in the global value chain (Figure 4).
Amidst COVID-19 and trade war, the global economy is disrupted both in supply and demand. The initial impact of COVID-19 is supply disruption owing to the lockdown in China and several countries that have affected the supply chain in Thailand. Nevertheless, this is a short-term impact as China’s lockdown quickly eases. The medium-term impact is primarily from demand contraction from the global economy sluggish. Although Thai exports are expected to go down due to lower demand, some sectors, that is, the food industry, may gain from trade diversion from production slowdown in other countries. Moreover, some foreign firms will diversify their source of raw materials or even relocate their production base back to their source country or elsewhere to avoid the conflict from trade war.

This poses some opportunity for Thailand to obtain trade from those who want to diversify their supply chain, attract investment from supply chain relocation, and gain back its competitiveness as Thailand is one of the well-managed countries regarding the COVID-19 pandemic and has the necessary basic infrastructure.

Thus far, Thailand has implemented policies to attract new investment by introducing new investment promotions and develop eastern provinces into a hub for technological manufacturing and services. However, this is not enough. Thailand should be rethinking its strategy to overcome weakness and gain back competitiveness in the long term.

First, Thailand needs to hasten digital transformation both in the private and public sectors. Public policies are essential in developing a digital ecosystem, including both hardware and software. The government should provide incentives for firm transformation such as tariff deduction for high-tech machine or software investments and establish support infrastructure. The government also needs to deregulate as well as accelerate digital transformation to realize digital government.

Second, Thailand needs to improve existing investment incentives to be more direct and effective to attract the right investment. For example, a firm should be offered an
accelerating depreciation allowance to restructure to new technology timely.

Third, Thailand needs to reform its education system by promoting dual vocational training to prepare human capital with knowledge and skills fit for companies’ needs. Thailand should also liberalize professional services to bring more skilled professionals to support incoming investment, especially those that Thailand lacks.

Fourth, Thailand should promote the appropriate R&D development by putting more budgets into R&D, aside from developing infrastructure, and provide the right and adequate incentives for researchers to direct their research effort into the valuable social and commercial outcome. It should also fasten the patent process for innovators or investors to establish a start-up and get timely returns.

Fifth, Thailand needs to accelerate and strengthen regional integration by adjusting the negotiating strategy toward a unified tariff structure to reduce distortion and gain cost-effectiveness as firms sourcing inputs from various countries.

Lastly, Thailand needs to improve trade facilitation to reduce transaction costs and especially realize the single national window and ASEAN single window.

References